

ASHFIELD DISTRICT COUNCIL



Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date: **Monday, 30th November, 2020**

Time: **7.00 pm**

Venue: **[Ashfield District Council's YouTube Channel](#)**

For any further information please contact:

Lynn Cain

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01623 457317

AUDIT COMMITTEE

Membership

Chairman: Councillor David Walters

Councillors:

John Baird
Christian Chapman
Kevin Rostance

Jim Blagden
Arnie Hankin
Dave Shaw

FILMING/AUDIO RECORDING NOTICE

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SUMMONS

You are hereby requested to attend a meeting of the Audit Committee to be held at the time and on the date mentioned above for the purpose of transacting the business set out below.



Carol Cooper-Smith
Chief Executive

AGENDA

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1. **To receive apologies for absence, if any.**
2. **Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests.**
3. **To receive and approve as a correct record the minutes of the meeting of the Committee held on 19 October 2020.** 5 - 8
4. **Treasury Management Mid Year Report 2020/21.** 9 - 26
5. **Audit Progress Report.** 27 - 44
6. **Exclusion of the Press and Public.**

A Member of the Committee is asked to move:-

“That in accordance with the provisions of Section 100A of the Local Government Act 1972, the press and public be now excluded from the meeting during the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and in respect of which the Proper Officer considers the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”
7. **Mid Year Investment Property Performance 2020/21.** 45 - 62

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AUDIT COMMITTEE

Virtual Meeting held on Monday, 19th October, 2020 at 7.00 pm

Present: Councillor David Walters in the Chair;

Councillors John Baird, Jim Blagden,
Christian Chapman, Arnie Hankin,
Kevin Rostance and Dave Shaw.

Officers Present: Bev Bull, Lynn Cain, Ruth Dennis, Peter Hudson
and Mike Joy.

In Attendance: Michael Butler and David Hoose (Mazars).
Mandy Marples (CMAP).

AC.12 Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests

No declarations of interest were made.

AC.13 Minutes

RESOLVED

that the minutes of the meeting of the Committee held on 27 July 2020, be received and approved as a correct record.

AC.14 Mazars: Audit Completion Report - Year Ending 31 March 2020

David Hoose and Michael Butler presented the Audit Completion report for Mazars to those charged with governance for 2019/20.

Mazars had made significant progress regarding the audit of the Council's Statement of Accounts which was now substantially complete. It was anticipated that they would be issuing an unqualified opinion, without modification, on the financial statements and concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in relation to the Value for Money Conclusion.

The headline messages were as follows:-

Outstanding Matters

A couple of outstanding matters were highlighted regarding Pension and Property, Plant and Equipment.

No material issues have been identified from the work carried out to date regarding Pensions but part of the assurance over the net pensions' liability was derived from specified procedures commissioned from the external auditors of the Nottinghamshire Pension Fund, and the final report outlining procedures was yet to be received.

For Property, Plant and Equipment, an adjustment had been identified to the financial statements around Investment Property valuations. Mazars were currently consulting on the form of the audit opinion wording that should be used against the backdrop of COVID-19. It was expected that an adjustment would be needed to the financial statements in relation to 'material uncertainty' in property valuations caused by Covid19 and this in turn would lead to an emphasis of matter paragraph in the audit opinion.

Members did acknowledge that these outstanding matters were an issue for local authorities nationally and not a local issue being experienced by the Council.

Internal Control Recommendations

No new deficiencies had been identified as part of the 2019/20 financial audit and good progress had been made over the year. However, the Committee noted that one prior year control deficiency remained open and still needed to be addressed.

VFM Conclusion and Risk Areas

Mazars concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Two risks had been identified regarding Financial Sustainability and Commercialisation of Investment Properties Strategy.

As a result of the audit, no additional risks had been identified and the Council's management of both its financial sustainability and its commercialisation programme were adequate. However, in relation to the commercialisation programme the Council had been advised to revisit its commercial investment strategy to take account of the economic impact of Covid19, the potential changes in governance and regulation, and to make a formal decision to acknowledge its risk appetite given the changing circumstances.

On conclusion of the presentation, both David Hoose and Michael Butler took the opportunity to comment that despite the revised deadlines due to the Covid-19 outbreak and the difficulties encountered by the Council during the accounts preparation and audit process, the Finance Team should be acknowledged and congratulated for their resolute assistance and commitment towards achieving the necessary audit outcome.

RESOLVED that
the Audit Completion report for 2019/20, as presented to Committee by Mazars, be duly received and noted.

AC.15 Audited Statement of Accounts 2019/20

The Council's Corporate Finance Manager (and Section 151 Officer) provided a presentation to the Committee giving details of the audited Statement of Accounts for 2019/2020 and the Chief Accountant summarised the main sections of the report.

RESOLVED that

- a) the audited Statement of Accounts for 2019/20 subject to the outcome of the Nottinghamshire County Council Pension Fund audit, be received and approved;
- b) delegated authority for the final approval of the audited Statement of Accounts for 2019/20 be granted to the Corporate Finance Manager (Section 151 Officer) subject to a satisfactory outcome of the Nottinghamshire County Council Pension Fund audit and a report back to Audit Committee with details of any changes, if required.

AC.16 Independent Review into the oversight of Local Audit and the transparency of Local Authority Financial Reporting

Committee received a report outlining the recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. The findings and recommendations focussed on three main areas namely, Local Audit arrangements, Governance and Financial Reporting.

Members debated the findings and recommendations and acknowledged that a further round of Audit training might be useful for Members of the Committee in the near future.

RESOLVED that

- a) the update regarding the recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, as presented, be received and noted;
- b) the Service Manager, Scrutiny and Democratic Services be requested to arrange some additional training for Audit Committee Members (and remaining Members if interested) in relation to ongoing audit responsibilities and Pension Fund requirements.

AC.17 Audit Progress Report

Mandy Marples, CMAP's Audit Manager, presented the report and summarised audit progress between 10 July 2020 and 5 October 2020, with one assignment having being completed during that time in relation to Rent Control. A reasonable assurance rating had been assigned and an extension to the agreed action date for the moderate risk recommendation had been given in light of the current circumstances. The low risk recommendations as outlined, had already been duly implemented.

Due to the Covid-19 pandemic, a number of changes had been made to the Audit Plan for 2020-21. Disruption to services had been caused by the lockdown, staff secondments into front-line services and increased sickness levels which had inevitably led to delays in audits and a reduction in audit coverage.

In addition, the risk profile of local authorities had been significantly affected by the pandemic with existing risks being exacerbated, including homeworking which had meant that cyber security was of increased importance.

The necessary changes to processes and procedures have also had implications for the internal control environment and in light of the above, the Audit Plan has been revisited and changed in consultation with the Director of Legal & Governance. A number of audits have also been added including Governance – Covid-19 Recovery, Business Support Grants and Financial Health and Resilience.

Members were advised that further audits might be brought back into the Plan should resources allow and CMAP had also given advice to support the Council as it faced changes to existing systems and the implementation of new systems and processes.

Members considered and briefly discussed the list of outstanding recommendations for the various service areas.

Concerns were raised that implementation of the Fire Safety Outstanding Recommendation regarding entrance doors to flats currently failing to comply with Fire Safety Regulations were long overdue. Committee were advised that the delay had been due to difficulties locating a manufacturer that produced the required standard of doors but this had now been resolved and work should be commencing in the near future.

RESOLVED that

- a) audit assignment progress as at 5 October 2020, as presented to Committee, be received and noted;
- b) the Director of Housing and Assets be requested to provide an update to the next meeting of the Audit Committee in relation to the installation of suitable entrance doors to flats currently failing to comply with Fire Safety Regulations.

The meeting closed at 8.07 pm

Chairman.

Report To:	AUDIT COMMITTEE	Date:	30th NOVEMBER 2020
Heading:	TREASURY MANAGEMENT MID YEAR REPORT 2020/21		
Portfolio Holder:	COUNCILLOR RACHEL MADDEN PORTFOLIO HOLDER FOR FINANCE & RESOURCES		
Ward/s:	ALL		
Key Decision:	NO		
Subject to Call-In:	NO		

Purpose of Report

This mid-year report has been written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and covers the following:

- An economic update for the 2020/21 financial year as at 30 September 2020;
- The Council's capital position (including prudential indicators);
- The Council's investment portfolio for 2020/21;
- The Council's borrowing position for 2020/21.

Recommendation(s)

- 1) To agree changes to the 2020/21 Prudential Indicators following in year changes to the 2020/21 Capital Programme,
- 2) To note the breach of Treasury Management Strategy, and,
- 3) To note contents of the report.

Reasons for Recommendation(s)

In accordance with the Council's Financial Regulations Audit Committee is responsible for the implementation and regular monitoring of Treasury Management policies and practices and will receive, as a minimum each year, reports setting out the Annual Treasury Management Strategy and Plan for the coming year; a mid-year review and an annual Treasury Management Performance Report. These reports are also considered at Cabinet.

Alternative Options Considered

(with reasons why not adopted)

Detailed Information

1 Background

- 1.1 The Council aims to operate a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending commitments. This management of longer-term cash may involve arranging long or short-term loans, or the use of longer-term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 Accordingly, treasury management is defined as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Economics and interest rates to date and the outlook for 2020/21

- 2.1 In the UK, the first half of the year continued to be impacted on by the on-going Covid-19 Pandemic.
- 2.2 The Monetary Policy Committee (MPC) of the Bank of England maintained the Bank Rate at 0.10%, which has been in effect since 19th March 2020. It is not expected to introduce negative interest rates in the short term.
- 2.3 Public Works Loans Board (PWLB) has been the main source of borrowing for the Council. PWLB rates have been increased slightly. The 50 year PWLB (certainty) rate for new long term borrowing increased from 2.34% on the 1 April to 2.40% by 30 September 2020.
- 2.4 The current PWLB rates include a 1% increase in rates implemented in October 2019. The Government launched a consultation on PWLB borrowing in March 2020, which indicated there is a possibility that the increase may be reversed to some extent. However the consultation made it clear that Local Authorities will not be allowed to borrow money from the PWLB to purchase commercial property, where the aim is to generate an income stream (assets for yield). One of the proposals is to require Local Authorities that wish to access the PWLB to confirm that they do not plan to buy commercial property (assets for yield). Investment Properties are held for yield, which is likely to mean that if the proposal is implemented without any changes following the consultation, we may not have access to PWLB to fund our capital schemes and alternative borrowing would need to be used. Local Authorities are still awaiting the outcome of the consultation.

2.5 The UK's economy is influenced by UK and worldwide events. It will continue to be impacted on by the actions taken in relation to the Covid-19 pandemic and Brexit uncertainties, ahead of the year-end deadline, and the trade deal agreed or not agreed. A full economic update and interest rate forecast provided by Link Asset Services, our Treasury Advisors, is included at Appendix 1.

3 The Council's Capital Position (including Prudential Indicators)

Prudential Indicators

3.1 Capital Programme

3.1.1 Table 1 below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget in March 2020.

Table 1 – Capital Programme 2020/21

Capital Expenditure by Service	2020/21 Original Estimate £m	2020/21 Revised Estimate £m
General Fund	28.135	35.956
Area Schemes	0.885	1.042
HRA - Decent Homes	11.350	4.638
HRA – Other	1.265	7.605
Total capital expenditure	41.635	49.241

3.1.2 The main reason for the General Fund change in capital expenditure is due to 2019/20 slippage on the Investment Properties being added to the 2020/21 programme. The change in the HRA - Decent Homes Schemes is due to the impact of Covid-19 pandemic e.g. difficulties gaining access to properties during full lockdown and complications with ensuring social distancing. The increase in the HRA – Other capital expenditure is due to the addition of the 2019/20 slippage and the inclusion of additional new approved Affordable Housing developments, being Hucknall Infill Sites and Maun View, Sutton in Ashfield developments.

3.1.3 Table 2 below draws together the main treasury management strategic elements of the capital expenditure plans (above), highlighting the original and the revised estimated financing arrangements of this capital expenditure.

Table 2 – Capital Expenditure Funding

Capital Expenditure	2020/21 Original Estimate £m	2020/21 Revised Estimate £m
Total capital expenditure	41.635	49.241
Financed by:		
Capital receipts	1.193	1.553
Capital grants	1.800	5.772
Capital reserves	11.423	9.706
Total financing	14.416	17.031
Borrowing requirement	27.219	32.210

3.1.4 The borrowing requirement has increased as a result the investment property expenditure slippage from 2019/20 and changes to HRA expenditure. The borrowing need may also be supplemented by maturing debt and other treasury requirements.

3.2 Capital Financing Requirement, Operational Boundary and Authorised Limit

3.2.1 Any changes to borrowing in the Capital Programme affect the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for capital expenditure. The CFR increases by the amount of capital expenditure funded by borrowing and reduces by making revenue charges for the repayment of debt (the Minimum Revenue Provision).

Table 3 – Capital Financing Requirement (CFR)

	2020/21 Original Estimate £m	2020/21 Revised Estimate (Adjusted for Slippage) £m
Prudential Indicator – Capital Financing Requirement		
CFR Non-Housing	107.724	110.662
CFR – Housing	80.081	80.131
Total CFR	187.805	190.793
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	191.000	194.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	191.000	194.000
Prudential Indicator – the Authorised Limit for external debt		
Borrowing	206.000	211.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	206.000	211.000

3.2.2 The 2020/21 Capital Financing requirement has increased as result of a change in the spend profile for the Kirkby Leisure Centre scheme. The Operational Boundary has been revised upward to reflect the change in CFR, it includes an amount for working capital payments. The Authorised Limit has been increased in line with changes to the Operational Boundary. The difference between the Authorised Limit and the Operational Boundary reflects the worst case scenario of having to borrow to finance that part of the capital programme that is not proposed to be financed through borrowing.

3.3 Estimate of ratio of financial cost to net revenue stream for the current year split between the Housing Revenue Account and General Fund

3.3.1 For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants.

Table 4 - Estimate of ratio of financial cost to net revenue stream

	Original 2020/21 Estimate %	Revised 2020/21 Estimate %
Housing Revenue Account	13.79	13.79
Non HRA (General Fund)	26.60	21.64

3.3.2 The change to the General Fund estimate is mainly due to external borrowing being less than originally estimated.

3.4 Estimate of the Incremental impact of capital investment decisions on the Council Tax and Rent Levels

3.4.1 These indicators have been prepared using the revised Capital Programme, approved by Council on the 1st October 2020. For the General Fund these are calculated by dividing the estimated capital financing costs by the estimated Council Tax Band D equivalents. There is no borrowing planned for the Housing Revenue Account (HRA) therefore these ratios have zeros. If in future years there was to be HRA borrowing the ratio would be calculated by dividing the estimated capital financing costs by the estimated number of council dwellings.

Table 5 - Incremental impact of capital investment decisions on the Council Tax and Rent Levels

	Original 2020/21 Estimate £	Revised 2020/21 Estimate £
General Fund (Band D)	59.62	60.13
HRA (52 Weeks)	0	0

3.4.2 The incremental impact of capital investment decisions is broadly in line with the original estimate.

4. Prudential Indicators for Treasury Management

4.1 Interest rate exposure

4.1.1 Local authorities are required to set limits for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest, and are net of any investments.

4.1.2 Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures in Table 6 give the following maximum levels, when compared to the operational boundary, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

Table 6 - Interest Rate Exposure

Principal Outstanding	2020/2021 30th September 2020 Actual	2020/2021 Revised
	£m	£m
Fixed Rates	82.0	211.0
Variable Rates (No more than 40% of the operational boundary).	15.0	84.4

4.1.3 The 2020/21 revised values represent the maximum amount of fixed rate debt and the maximum amount of variable rate debt the Authority could hold based on the new recommended Authorised Limit. The 30th September 2020 Actual values represent the actual level of fixed rate and variable rate debt the Council had on 30th September 2020.

4.2 Maturity Structure of borrowing

4.2.1 For the next three years' the authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

4.2.2 Table 7 shows the proposed lower and upper limits for all three years, given the current structure of the Council's debt portfolio:

Table 7 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Actual Position for 30/09/2020	Lower Limit %	Upper Limit %
Under 12 Months	0.00%	0%	5%
Under 24 Months	6.70%	0%	10%
Under 5 years	12.32%	0%	20%
Under 10 Years	24.46%	0%	25%
Under 20 Years	37.86%	0%	40%
Under 30 Years	43.01%	0%	50%
Under 40 Years	73.93%	0%	80%
Under 50 Years	100.00%	0%	100%
50 Years and Above	0.00%	0%	0%

4.3 Principal sums invested for more than 364 days

4.3.1 Where a local authority invests, or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

4.3.2 It is suggested, that the use of longer-term investments be limited to a maximum of £5m in each of the next three years to tie in with the Council's already approved policy of not investing more than £5m with any one bank or building society at the same time.

4.3.3 The Authority currently does not have any long term investments.

5. Investment Portfolio 2020/21

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital, liquidity and to obtain an appropriate level of return, which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are still very low and in line with the 0.10% Bank of England Base Rate. Table 8 provides a summary of the Council's total investments as at 30th September 2020.

Table 8 – Summary of Investments

Borrower	Balance at 30/09/20 £000's
Call Accounts	5,066
Money Market Funds	14,365
Fixed Term Deposits	0
Total	19,431

5.2 Call Accounts

5.2.1 In total, the Council held £5.07m of call account investments (see table below) as at 30 September 2020 (£0.4m at 31 March 2020) and the average investment portfolio yield for all investments in the first six months of the year is 0.22%, which is due to low interest rates.

Table 9 – Call Accounts

Borrower	Balance at 30/09/20 £000's
Barclays Bank	48
Handelsbanken	5,018

5.2.2 The average interest rate across counterparties for Call deposits is 0.17%

5.3 Money Market Funds

5.3.1 The Council currently has three Low Volatility Net Asset Value (LVNAV) Money Market Funds. This means that the value of the shares that the Council holds in these funds may go down as well as up. However, it is unlikely that there will be a change in the price of the Money Market Fund shares between the prices paid and monies received when the shares are sold.

Table 10 – Money Market Funds

Borrower	Balance at 30/09/20 £000's
Aberdeen Standard Liquidity – Money Market Fund	5,000
Insight Investments – Money Market Fund	4,365
Federated Hermes – Money Market Fund	5,000

The average interest rate across counterparties for Call deposits is 0.18%

5.4 Fixed Term Deposits

5.4.1 As at 31st March 2020, the Council had a £2.0m fixed term deposit with Thurrock Council. At the end of September, the Council had no fixed term deposits. There have also been term deposits with other Local Authorities, Banks and the UK Government Debt Management Office, for various periods between 1st April and 30th September 2020.

Table 11 – Fixed Term Deposits

Opening Balance £000's	New Investments £000's	Repayments £000's	Closing Balance £000's
2,000	42,750	44,750	0

5.4.2 The comparison below shows the performance of these fixed term deposit investments against the current Bank of England (BoE) base rate.

Table 12 – Fixed Term Deposits Comparison to Bank of England base rate

BoE Base Rate as at 30th September	Council Performance	Investment Earned £000's	Interest
0.1%	0.49%		£7k

5.5 Interest Receivable Budget

5.5.1 The Council's budgeted investment return for 2020/21 is £35k and performance for the half year to 30 September 2020 is £23k, which comprises £7k from term deposits, £11k from Money Market Funds and £5k from call deposits. The estimated full year outturn is still expected to be £35k, as balances in the Money Market Funds are expected to diminish in the second half of the year.

5.5.2 There is the possibility of negative interest rates for Money Market Funds (MMFs) even if Bank of England Base rates do not turn negative. For the short term, it is expected that if interest rates do turn negative for MMFs then these will be offset by a reduction in fees.

5.6 Investment Strategy Breaches

5.6.1 There was one occasion where the Investment Strategy was breached:

- i) Handelsbanken – Interest was added to the £5m investment which caused the balance to exceed the £5m limit.

6 Borrowing

6.1 The borrowing activities undertaken during the year to 30 September 2020 are summarised below:

Table 13 – Council's borrowing activities to 30th September 2020

Type of Loan	As at 31 March 2020 £'000	Borrowed £'000	Repaid £'000	As at 30 Sept 2020 £'000
Fixed PWLB	62,536	0	0	62,536
Private Placement Loans – LOBO	19,500	0	0	19,500
Private Placement Loans – Fixed	15,000	0	0	15,000
Total External Debt	97,036	0	0	97,036

7 Investment Properties

7.1 As at the 1st April 2020 the Council had spent £58.506m on investment properties. In 2020/21 it has purchased one other property for £3.260m. The total net expenditure to date on investment properties is £61.766m. These investment properties are expected to generate £4.320m gross rental income per annum which is a gross yield of 7%. The CFR and therefore MRP charges have increased as a result of activity in investment properties.

Glossary of Terms

Call Accounts

Is a bank account for investment funds it has no fixed deposit period, provides instant access to funds and allows unlimited withdrawals and deposits.

Gross Domestic Product (GDP)

This is the monetary value of all the finished goods and services produced by a country within its borders in a specific time period, usually a year.

Consumer Price Index (CPI)

The official measure of inflation of consumer prices of the United Kingdom.

LIBID

The London Interbank Bid Rate, that is, the interest rate at which banks bid to take short-term deposits from other banks.

Retail Price Index (RPI)

A measure of inflation by measuring changes in the price levels of a sample of representative goods and services purchased by households. They use different items and different formulae for the calculations which means that CPI is often lower than RPI.

y/y

Year on year is a method of evaluating two or more measured events to compare the results of one time period with those of a comparable time period on an annualised basis.

Monetary Policy Committee (MPC)

This is a committee of the Bank of England which decides the official interest rate in the UK (the Bank of England Base Rate) and also directs other monetary policy such as quantitative easing and forward guidance.

Public Works Loan Board (PWLB)

The PWLB is a statutory body operating within the UK Debt Management Office to lend money from the National Loan Fund to local authorities and to collect the repayments.

Quantitative Easing (QE)

An unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

Implications

Corporate Plan:

Effective treasury management and investment in properties is providing an income stream to support delivery of the key services within the Corporate Plan.

Legal:

Requirement to adhere to the CIPFA Prudential Code. Ensures compliance with Financial Regulations.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No significant implications
General Fund – Capital Programme	No significant implications
Housing Revenue Account – Revenue Budget	No significant implications
Housing Revenue Account – Capital Programme	No significant implications

Risk:

Risk	Mitigation
Risk that the investment properties become void or fall in value	Spread of assets within the portfolio and a reserve to cushion any void periods.

Human Resources:

No Human Resources implications contained in this report.

Environmental/Sustainability

No implications.

Equalities:

No implications.

Other Implications:

No implications.

Reason(s) for Urgency

Not Applicable

Reason(s) for Exemption

Not Applicable.

Background Papers

Link Asset Services – Treasury Management Strategy Statement and Annual Investment Strategy
Mid-Year Review Report 2020/21.

Report Author and Contact Officer

Pete Hudson
Corporate Finance Manager (and Section 151 Officer)
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Economics update

- As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:
 - The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
 - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
 - It forecast that there would be excess demand in the economy by Q3 2022 causing **CPI inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.
- The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to **downside risks**, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.
- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the

outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.
- One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to

provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20										
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. At the close of the day on 30th

September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.

- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsustainable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020**: this could have repercussions for the US economy and SINO-US trade relations.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK** - stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.



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Audit Committee: 30 November 2020



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Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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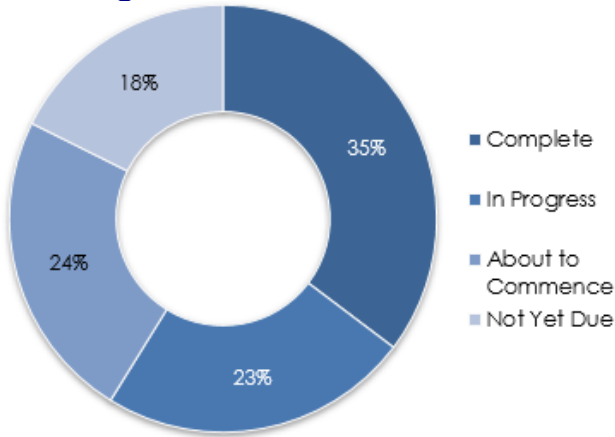
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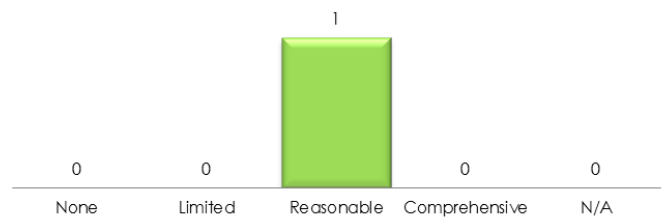
AUDIT DASHBOARD

Plan Progress



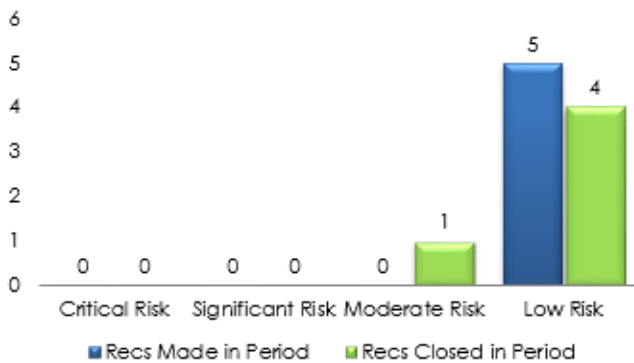
Assurance Ratings

Control Assurance Ratings Issued During Period



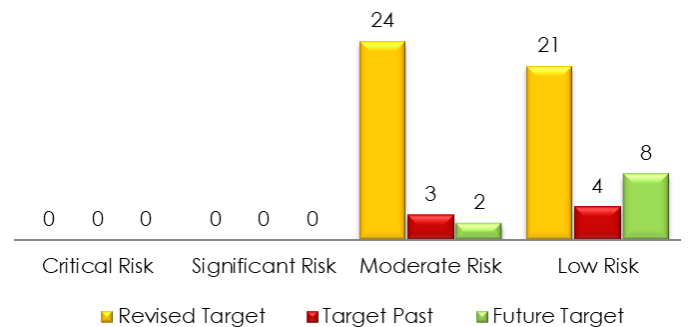
Recommendations

Movement During Period



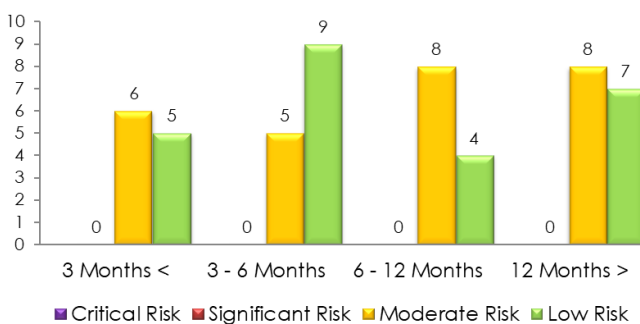
Recommendations

Recommendations Currently Open



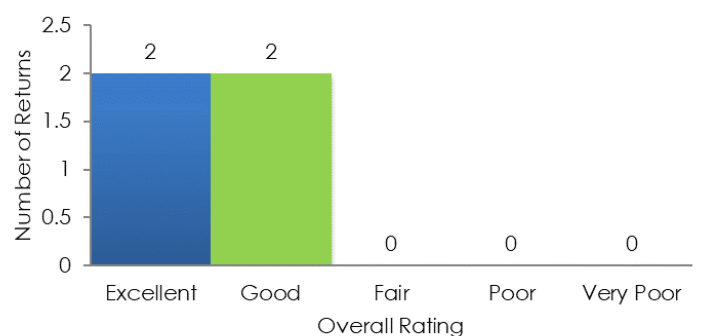
Recommendations

Overdue Recommendations



Customer Satisfaction

Returns Between Jan 2020 & Oct 2020



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AUDIT PLAN

Progress on Audit Assignments

The following table provides the Committee with information on how audit assignments were progressing as at 17 November 2020.

2020-21 Jobs	Status	% Complete	Assurance Rating
Management of Fraud Risk	Allocated	10%	
Governance – Covid-19 recovery	Not Allocated	0%	
Teleworking Security	Allocated	0%	
Risk Management 20-21	In Progress	20%	
Contracts Register	Allocated	0%	
Procurement	Not Allocated	0%	
People Management	Not Allocated	0%	
Business Support Grants	In Progress	75%	
Financial Health & Resilience	Allocated	5%	
Complex Case Work	In Progress	80%	
Disabled Facilities Grants	Final Report	100%	Reasonable
Rent Control	Final Report	100%	Reasonable
B/Fwd Jobs	Status	% Complete	Assurance Rating
Medium Term Financial Plan	Final Report	100%	Reasonable
Creditors 2019-20	Final Report	100%	Comprehensive
Anti-Fraud & Corruption 2019-20	Final Report	100%	Reasonable
Digital Transformation	Final Report	100%	Reasonable
Transformation Project Assurance	In Progress	75%	

Audit Plan Changes

None to report.

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AUDIT COVERAGE

Completed Audit Assignments

Between 6 October and 17 November 2020, the following audit assignment has been finalised since the last progress update was given to the Audit Committee.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Disabled Facilities Grants	Reasonable	0	0	0	5	60%
TOTALS		0	0	0	5	60%

Disabled Facilities Grants					
Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls	
The service will have appropriate controls in place to ensure that the funds are only used for appropriate expenditure in accordance with the Disabled Facilities funding requirements.	4	3	1	0	
The service had appropriate procedures in place to deter, prevent and detect fraud.	4	1	3	0	
TOTALS	8	4	4	0	
Summary of Weakness		Risk Rating	Agreed Action Date		
The Aids and Adaptations Policy allowed the Council to pay grant to the applicant, rather than the contractor: this was not aligned with the contractual arrangement entered into between the Council and the contractor.		Low Risk	31/03/2021		
An approved list of contractors was used to request tenders/quotes for works under £25,000 without evidence that this procedure had been granted dispensation from the Contract Procedure Rules.		Low Risk	31/12/2020		
The contractors on the approved list were not approached for quotations on a rotational basis, nor were the reasons to support contractor selection sufficiently evidenced. The approved list contained contractors not willing and able to undertake a range of Disabled Facilities Grant works.		Low Risk	Implemented		

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The Disabled Facilities Grants page of the Council's website did not deter applicants from making false declarations in order to obtain grants fraudulently.	Low Risk	Implemented
Formal instructions had not been provided by the service's management on measures the Disabled Facilities Grants Team should take to safeguard themselves and others against the risk of COVID-19 when visiting client's properties.	Low Risk	Implemented

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RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
14-Feb-19	Risk Registers	Reasonable	1	1	0
10-Jan-19	Depot Investigation	Limited	0	6	0
27-Mar-18	Rent Arrears	Comprehensive	0	1	0
24-Apr-18	ICT Performance Management	Reasonable	0	2	0
22-Jun-18	Health & Safety	Comprehensive	0	1	0
11-Jan-18	Anti-Fraud & Corruption	Reasonable	0	1	0
16-Aug-19	Fire Safety	Reasonable	0	1	0
28-Mar-18	ECINS Security Assessment	Limited	0	2	0
12-Mar-19	Treasury Management & Banking Services	Reasonable	0	1	0
03-Dec-19	Data Quality & Performance Management	Reasonable	0	4	0
29-Nov-19	Anti-Social Behaviour	Reasonable	0	4	0
09-Oct-19	Procurement 2019-20	Reasonable	0	2	0
29-Nov-19	Anti-Fraud	N/A	0	2	0
31-Jan-20	Information Governance	Reasonable	0	4	0
16-Mar-20	Homelessness	Reasonable	0	7	0
18-Mar-20	Customer Services - E-Payments	Comprehensive	1	0	0
30-Apr-20	Creditors 2019-20	Comprehensive	0	2	0
27-May-20	Medium Term Financial Plan	Reasonable	0	0	6
08-Jul-20	Anti-Fraud & Corruption 2019-20	Reasonable	1	1	2
09-Jul-20	Digital Transformation	Reasonable	4	2	0
27-Jul-20	Rent Control	Reasonable	0	1	0
16-Nov-20	Disabled Facilities Grants	Reasonable	0	0	2
		TOTALS	7	45	10

Action Due = The agreed actions are due, but Internal Audit has been unable to ascertain any progress information from the responsible officer.

Being Implemented = The original action date has now passed and the agreed actions have yet to be completed. Internal Audit has obtained status update comments from the responsible officer and a revised action date.

Future Action = The agreed actions are not yet due, so Internal Audit has not followed the matter up.

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Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Risk Registers	0	0	1	0	1	0
Depot Investigation	0	0	0	0	4	2
Rent Arrears	0	0	0	0	0	1
ICT Performance Management	0	0	0	0	2	0
Health & Safety	0	0	0	0	0	1
Anti-Fraud & Corruption	0	0	0	0	0	1
Fire Safety	0	0	0	0	1	0
ECINS Security Assessment	0	0	0	0	2	0
Treasury Management & Banking Services	0	0	0	0	0	1
Data Quality & Performance Management	0	0	0	0	1	3
Anti-Social Behaviour	0	0	0	0	1	3
Procurement 2019-20	0	0	0	0	2	0
Anti-Fraud	0	0	0	0	2	0
Information Governance	0	0	0	0	3	1
Homelessness	0	0	0	0	2	5
Customer Services - E-Payments	0	0	1	0	0	0
Creditors 2019-20	0	0	0	0	0	2
Anti-Fraud & Corruption 2019-20	0	1	0	0	0	1
Digital Transformation	0	2	2	0	2	0
Rent Control	0	0	0	0	1	0
TOTALS	0	3	4	0	24	21

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Highlighted Recommendations

The following significant or moderate risk rated recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

Being Implemented Recommendations

Data Quality & Performance Management	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>The Data Quality Strategy required updating and had not been formally approved by the Council.</p> <p>We recommend that the Data Quality Strategy is reviewed to ensure it is up to date specifically with current processes and organisational structure. The updated strategy should be approved in accordance with the Council's Constitution.</p>	Moderate Risk
Management Response/Action Details	Action Date
The strategy will be reviewed and presented for approval.	30/04/2020
Status Update Comments	Revised Date
<p>We have successfully recruited to a Business Improvement Lead position in the last month; this role will lead effective delivery of our performance management framework.</p> <p>This action will be deferred to December 2020 to enable us to not only update the strategy but also make significant changes in alignment with our digital transformation programme.</p>	31/12/2020

Information Governance	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>Not all Council employees had undertaken the required GDPR e-learning training.</p> <p>We recommend that the Council actively promote the mandatory requirement for all employees (including Managers) to complete the GDPR training (including refresher training). Where training has not been completed, the Council should actively pursue employees. Where necessary, the Council should consider implementing a regime of escalation to Senior Officers, for those employees who continually fail to undertake and complete the training.</p>	Moderate Risk
Management Response/Action Details	Action Date
All GDPR training and its frequency is to be reviewed to include a mixture of e-learning and face to face. Once this programme is finalised and being rolled out, a process will be put in place to ensure failure to complete the training is escalated to managers/directors.	30/06/2020
Status Update Comments	Revised Date
Unfortunately, due to staff absence and COVID, we have not been able to complete the action in line with the initial timeframe. Action date revised to 31 October 2020.	31/10/2020

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Information Governance	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>Data Protection Impact Assessments had been completed but had not been subject to review or sign off by the Data Protection Officer, as per the Council's guidance.</p> <p>We recommend that Council officers are adequately trained and reminded, at periodic intervals, of the need to complete a DPIA when undertaking any projects which involve the processing of personal data. Management should consider incorporating the completion of DPIAs into a project checklist as part of key project documents. Then, as per the Council's guidance on DPIAs, on completion, consultation should be undertaken with the Council's Data Protection Officer. The DPIA should be signed off by the Data Protection Officer to evidence that a consultation and comprehensive review has taken place.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>All GDPR training and its frequency is to be reviewed to include a mixture of e-learning and face to face. Training and guidance specifically in relation to DPIAs will be reviewed and developed to include checklists as appropriate. Interim arrangements have been put in place regarding completion and sign off of DPIAs. This will be publicised on Message of the Day.</p>	30/06/2020
Status Update Comments	Revised Date
<p>Unfortunately, due to staff absence and COVID, we have not been able to complete the action in line with the initial timeframe. Work has commenced in relation to the action including an interim approach to DPIAs. One of the Senior Solicitors has also attended an external training session to specifically assist us in improving our approach to DPIAs.</p> <p>The work on this recommendation has progressed but is not fully complete. Revised documents and guidance will be published on the intranet shortly. Proposed training slides have been drafted and training arrangements are being discussed. Revised action date to be provided.</p>	31/10/2020

Information Governance	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>Sensitive, personal data was being stored in locations which were not suitably restricted to only those officers with a genuine business need to access such information.</p> <p>We recommend that management take appropriate action to ensure that all personal, sensitive data is secured in files, within restrictive sub-folders, with access limited to only those officers who have a genuine business need to access such information.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>The IT Security Policy Framework is under review. As part of this review we will ensure it is updated to take account of GDPR requirements. Specifically, we will introduce the following measures to assist with ensuring access to data is suitably restricted to only those officers with a genuine business need to access such information:</p> <ul style="list-style-type: none"> - Starters/Transfers/Leavers E-Form – to be completed by the Section Manager. This form will identify access rights of starters, amendments for staff transferring internally and identify when staff leave the Council. This will be used in conjunction/cross-references with the report received from HR on a quarterly basis. - E-Form for completion by Managers/Directors for folder access changes. 	30/06/2020

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- Introduction of new file structure guidelines and cascade through ELT/ALT, DMTs and MOD.	
- Provision of Group Access Permission lists on a quarterly basis to Service Managers for checking and confirmation/amendment. IT to meet with individual Managers to confirm, amend and clarify what is required of Managers as part of this new process.	
Status Update Comments	Revised Date
Action on hold due to Covid-19.	30/09/2020

Homelessness	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Testing noted two occasions where the Council had not retained evidence of the documentation checked that demonstrated the applicant met the eligibility criteria regarding citizenship and residency and was therefore eligible for assistance. We recommend that the Council retains evidence of the documentation checks undertaken which demonstrate the applicant is eligible for assistance on the grounds of citizenship and residency.	Moderate Risk
Management Response/Action Details	Action Date
HCLIC to be reviewed to see if it is possible to include a checklist so that decisions are not made until each section is complete. New Senior Officer is being recruited and will intensively manage caseloads of officers.	30/06/2020
Status Update Comments	Revised Date
Case management now via online HCLIC system rather than being paper based. System requires sections to be completed before proceeding to next section. Options for checklist to be discussed with Engagement and Development Officer at update meeting 8/7/2020.	31/08/2020

Homelessness	Rec No. 8
Summary of Weakness / Recommendation	Risk Rating
Review of the Personalised Housing Plans found two plans which did not include any actions for the Council to undertake. We recommend that actions to be taken by the applicant and the Council to assist applicants to prevent homelessness are recorded on the Personalised Housing Plan and where there are no actions for either party, this should be noted.	Moderate Risk
Management Response/Action Details	Action Date
The Development Officer is looking at the processes and procedures in respect of case management to ensure they are fit for purpose when managing cases online. The Team are aware of the need to manage cases in future through HCLIC. HCLIC to be reviewed to see if it is possible to include a checklist so that decisions are not made until each section is complete. New Senior Officer is being recruited and will intensively manage caseloads of officers. Reminder sent to officers. Further training has been arranged. More intensive case management to be conducted by new Senior Early Intervention Officer.	30/06/2020
Status Update Comments	Revised Date
Online PHP forms are now used in place of paper forms. The form has to be completed and includes regular prompts. The new form will be accessible by the new Senior officer whose role it will be to monitor and review case files.	31/08/2020

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Anti-Social Behaviour	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>Insufficient case notes were documented, impacting on the ability of third parties to review the actions taken.</p> <p>We recommend that Management follow up the issue of new guidance by reviewing each officer's documentation and provide training if required.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>We acknowledge that case notes have been minimal at times with no Clear actions on next steps of the case.</p> <p>We acknowledge that some cases have not been changed to INACTIVE on ECINS and achieved when closed.</p> <p>ECINS best practice guide is now in place and is required to be followed by officers within the ASB Team.</p> <p>Process now implemented and will be included in the wider procedure manual which is in progress.</p> <p>Monthly audit in place but has not been fully completed.</p>	31/12/2019
Status Update Comments	Revised Date
<p>A number of Training events took place for all team members last year and 1-1, case supervision, sampling of closed cases taking place has highlighted training required. A training plan is also in place with has an evidence log to demonstrate competency which officers are required to keep up to date. This has been rolled out for the team.</p>	31/10/2020

ECINS Security Assessment	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>There were no IP restrictions or two-factor authentication (2FA) process in place for Ashfield DC user access to the e-Cins system.</p> <p>We recommend that the Council raises a formal feature request for the introduction of 2-factor authentication in future releases of the system, or looks to restrict access to an authorised IP range. An acceptable usage policy should be defined for accessing the system outside the Council's private network.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>Police objected to this during early discussions with the Council and IT. To address these officers will be required to remote desk top into the Council's IT and access Ecins from here. Training and signing a MOU will ensure all officers understand the requirement moving forwards. To liaise with system provider to establish if there is an audit trail of IP address (these should all be one IP address).</p>	30/06/2018
Status Update Comments	Revised Date
<p>The Council has requested the introduction of 2-factor authentication and/or restricts to an authorised IP range but this was not implemented. The E-cins access request form is on the intranet and the terms and conditions on the second screen highlights the requirements for accessing the system which MUST only be made through Council provided equipment or remote desktop working. The supplier has been asked to provide a report that evidences that only Council approved access has been used.</p>	31/12/2020

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ECINS Security Assessment	Rec No. 10
Summary of Weakness / Recommendation	Risk Rating
<p>Current administrators of the system did not appear to have been sufficiently trained on the accessibility and whereabouts of security related reports that would need to be utilised for effective systems and security management.</p> <p>We recommend that management defines, documents and implements comprehensive security based training to all users granted organisation admin rights to allow them to effectively manage the security of the system and its users.</p>	Moderate Risk
Management Response/Action Details	Action Date
This will be raised to the project lead (PCC office) as per audit recommendations for this to be included in training for persons with organisation admin rights. The Ecins lead for the Council will prepare documents with project lead for review and sign off.	30/09/2018
Status Update Comments	Revised Date
<p>The PCC hold the contract with the service supplier and pay for the system on behalf of the County. There is a countywide Ecins meeting with the programme manager (appointed by the OPCC) as well as local meetings between ADC and the programme manager and all audit recommendations have been raised.</p> <p>ECINS does provide reporting that can highlight the volume of access by users in terms of when it was last accessed, by who, how much data they have added to the system etc. It would be up to ADC to set regulations and conventions around what policies they would like to see enforced against this data, e.g. users who have not logged on for thirty days or more get access suspended. These functions are all available through the stats and lists function of ECINS.</p> <p>Nottingham City Council are developing a number of guidelines/conventions and best practice approaches which upon completion will be shared across the programme. The Ecins Manager is happy to discuss at the next local delivery group what might be a good approach at ADC. The Ecins Manager is in the process of finalising an organisational best practice guide.</p> <p>The training provided by the programme at present is basic user training reflecting the agreed usage conventions for the system across the county (now echoed across the east midlands). The idea for more advanced organisation admin training is a good one and something which the Ecins manager is looking into. An appropriate training programme has been requested from the supplier.</p>	31/12/2020

ICT Performance Management	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>Despite commitment to performance management in the Councils latest Technology Strategy, we could not find any documented performance management metrics and goals to support this. Similarly, performance metrics for IT did not appear to be subject to annual review, or agreed or monitored by the Council.</p> <p>We recommend that Management defines performance management metrics for the IT service, and implements policies and procedures for monitoring and reporting compliance. Metrics, goals and targets should also be subject to annual review.</p>	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
This action will fall in line with the new service desk application. Action on hold due to COVID-19.	29/01/2021

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ICT Performance Management	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>Reviews of the team's performance in relation to the resolution of incidents and service requests did not appear to comply with a formal schedule, and evidence of previous reviews could not be provided as the actions/discussions were not documented in minutes.</p> <p>We recommend that Management defines a schedule for reviewing performance of incident and request resolution times, and ensures any agreed actions are documented in minutes which are retained.</p>	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
This action will fall in line with the new service desk application. Action on hold due to COVID-19.	29/01/2021

Risk Registers	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>The Council had not formally considered and documented its risk appetite.</p> <p>We recommend that the Council formally assesses and documents its risk appetite as soon as practically possible. As a core consideration of the Council's risk management approach, formally documenting its risk appetite could help the Council to make informed decisions, achieve its goals and support sustainability. We recommend that the Council formally assesses and documents its risk appetite as soon as practically possible.</p>	Moderate Risk
Management Response/Action Details	Action Date
Risk appetite has now been assessed for all corporate and service level risks and incorporated into reports. To continue this approach for Audit Committee reporting.	30/09/2019
Status Update Comments	Revised Date
Following consideration by our new Business Improvement Lead, we have determined it would be more beneficial to develop a separate risk appetite framework that defines how much risk the Council is prepared to accept and tolerate for strategic/corporate, operational, projects etc. We will draft a robust risk appetite framework for CLT consideration which will encompass Strategic Risks, Operational Risks, Information Technology, Fraud and Corruption, Compliance, Information Management. Our aim is to present this to CLT by early December so it can be reported to the next Audit Committee thereafter.	28/02/2021

Depot Investigation	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>The Zeus time recording system was not being used fully and consistently across the Service.</p> <p>We recommend that Management ensure that employee time is recorded accurately, fully and consistently. Management should perform adequate checks to ensure time recording systems are being used as expected and hold staff to account where appropriate. Training should be given to staff where required and supported by procedural guidance notes.</p>	Moderate Risk

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Management Response/Action Details	Action Date
Review of time recording systems and policy. Training and reminder messages for managers and officers. Introduce spot checks.	30/09/2019
Status Update Comments	Revised Date
Policy has been reviewed and circulated to trade unions. Training is still to be finalised. Due to other commitments, deadline needs to be extended.	31/10/2020

Depot Investigation	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>Management and staff were not always adhering to the Council's Leave Policy with meeting requests being used to request and approve leave.</p> <p>We recommend that Management ensure they are complying with the Councils Leave Policy and use the official process to authorise and record leave. After the year end, a sample of leave records should be examined by Management, independently of authorising Managers, to check for accuracy and review the appropriateness of records maintained.</p>	Moderate Risk
Management Response/Action Details	Action Date
Review policy. Implementation of electronic leave request and approval system through MyView. Training and reminder messages for managers and officers. Introduce sample checks	01/04/2020
Status Update Comments	Revised Date
<p>Policy has been reviewed and circulated to trade unions. Training is still to be undertaken. This has been put on hold due to retirement of the System Administrator and COVID-19.</p> <p>MyView is being rolled out to all Services, this is behind schedule due to COVID-19 however the roll out has recommenced using a virtual platform for the training and assistance.</p>	31/07/2021

Depot Investigation	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>We were informed by the Investigating officer that the Transport Manager's Purchase card had been photocopied and was available for use, unsecured in the general office.</p> <p>We recommend that all Purchase Card holders are reminded of the corporate policy and their personal responsibilities in relation to holding a card. Management should take appropriate action where instances of misuse are found.</p>	Moderate Risk
Management Response/Action Details	Action Date
Carry out a review of the policy and procedure and then roll out to officers through the provision of information and training.	31/10/2019
Status Update Comments	Revised Date
The use of Purchase Cards is currently under review and restrictions are being placed on cards aligned to the specific nature of services provided. Policy will be revised and training provided in accordance with the revised Policy by no later than 30 November 2020.	30/11/2020

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Depot Investigation	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>There were variances between Directorates over the controls in place for the authorisation and the recording and retention of supporting information for Purchase card usage.</p> <p>We recommend that corporate guidance is provided to Card holders which detail how they should be authorising and recording card purchases and the requirements for supporting information retention. The use of Purchase cards should be subject to regular Management oversight.</p>	Moderate Risk
Management Response/Action Details	Action Date
Carry out a review of the policy and procedure and then roll out to officers through the provision of information and training. The revised policy will include a process for ensuring management oversight.	31/10/2019
Status Update Comments	Revised Date
The use of Purchase Cards is currently under review and restrictions are being placed on cards aligned to the specific nature of services provided. Policy will be revised and training provided in accordance with the revised Policy by no later than 30 November 2020.	30/11/2020

Anti-Fraud	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>The Anti-fraud Sub-group had not met regularly for some months and the Baseline Assessment had not been completed. Therefore, the review of the Council's anti-fraud measures could not be completed.</p> <p>We recommend that the Service Manager, Revenues & Benefits, resumes the Anti-fraud Sub-group meetings with a priority action to complete the Baseline Assessment. This will enable the group to compare the Council's anti-fraud activities with good practice in each service area and produce a development plan. Regular updates should then be provided to Management, the Anti-Fraud Group and the Audit Committee.</p>	Moderate Risk
Management Response/Action Details	Action Date
Data-matching Sub-Group Meetings will resume and will report on its actions to the main Anti-Fraud Officer Working Group.	31/03/2020
Status Update Comments	Revised Date
Action on hold due to COVID-19.	30/09/2020

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Anti-Fraud	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>The Council's use of the NFI and Data Matching exercises to identify fraud and error had been limited. We were unable to identify the Council's plans for further development in this area.</p> <p>We recommend that the Service Manager, Revenues & Benefits, evaluates the current NFI and Data Matching provision within the Council and explores results of the NFI and Data Matching exercises to determine which of the matches should be pursued and appropriately resourced. The Service Manager, Revenues & Benefits should also evaluate the suggested further actions in the Anti-Fraud Review and make appropriate recommendations to the Anti-Fraud Group in order to develop and embed an anti-fraud culture within the Council.</p>	Moderate Risk
Management Response/Action Details	Action Date
The Council is considering its current arrangements and will review these in light of best practice in order to develop an action plan designed to embed an anti-fraud culture within the Council including carrying out NFI and data matching exercises.	31/03/2020
Status Update Comments	Revised Date
Action on hold due to COVID-19.	30/09/2020

Procurement	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>The Contracts Register did not include all of the Council's contracts or all of the information required by the Local Government Transparency Code 2015. As such, it did not completely fulfil the purpose of a Contracts Register.</p> <p>We recommend that the officer with designated responsibility for managing the Contracts Register carry out an exercise to ensure that it is a full and complete record of all contracts in place in the Council. We further recommend that the information included in the Contract Register is reviewed to ensure that it fully complies with the requirements of the Transparency Code.</p>	Moderate Risk
Management Response/Action Details	Action Date
Officers will review and determine an appropriate method for managing the Contracts Register moving forward, ensuring that all data required is published.	31/03/2020
Status Update Comments	Revised Date
Responsibility for overall corporate provision and updating of suitably robust contracts register has been realigned to be a responsibility of the Finance service following the departure of the Commercial Development Service Manager.	30/11/2020

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Procurement	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>The Council were not publishing the required data for the contracts where invitations to tender over the value of £5,000 had been raised in the previous quarter, as required by the Local Government Transparency Code 2015.</p> <p>We recommend that details of Invitations to Tender are separated from the Contracts Register and published in their own Register. This should be added to the Council's website as soon as is practically possible and updated quarterly. The following details should be recorded, as required by the Local Government Transparency Code 2015:</p> <ul style="list-style-type: none"> • Reference number. • Title. • Description of goods and/or services sought. • Start date, end date and review dates. • Department responsible. 	Moderate Risk
Management Response/Action Details	Action Date
Officers will review and determine an appropriate method for managing this information moving forward, ensuring that all data required is published.	31/03/2020
Status Update Comments	Revised Date
Responsibility for collating and publishing required contracts data has been realigned to be a responsibility of the Finance service following the departure of the Commercial Development Service Manager.	30/11/2020

Fire Safety	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>Not all entrance doors to flats comply with Fire Safety Regulations.</p> <p>We recommend that the Council reviews all flat entrance doors to identify those which do not comply with Fire Safety Regulations, or those that have failed recent government tests. The Council should then take action to ensure the appropriately accredited fire safety doors are installed at the entrances to all flats.</p>	Moderate Risk
Management Response/Action Details	Action Date
An assessment of all flat entrance doors has been completed and the results forwarded to the Assets & Investment Section for building into future door replacement programme(s). However, due to uncertainties around the manufacture, testing, certification and subsequent affected supply of composite fire doors, it is currently not possible to identify a definitive timescale for completion. The option to use alternative timber fire doors of the appropriate fire safety standards and specification are currently being looked into.	31/03/2020
Status Update Comments	Revised Date
Assessments have been done, and project has been mobilised, however, due to restrictions on COVID-19 all major works have been postponed.	31/10/2020

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